



Energy Risk Commodity Rankings 2023 Winner

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The power
of partnerships





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In the face of recent extreme volatility and price hikes, the strong partnerships Axpo has with its clients has enabled both parties to weather the storm, writes Stella Farrington

Since Russia's invasion of Ukraine in February 2022, participants in European energy markets have grappled with supply uncertainty, price rises and extreme volatility. This came on top of – and exacerbated – an environment of rising inflation and interest rates, adding further challenges to the management of energy risk.

Navigating these challenges requires strong risk management skills, a robust framework and the agility to adjust tried and tested techniques and models in a timely manner to fit the new environment. "It was a time to be collaborative with clients, offering them appropriate risk management services, but also learning from them", says Domenico Franceschino, head of origination, western and eastern Europe, and member of the management board of Axpo Solutions.

"I always refer to our customers and clients as partners because we have very stable and long-term relationships where, over the years, we have learned the best ways to support each other," he says. "That support is absolutely bidirectional, and very often it is our partners who have helped us through certain events."

The success of this approach certainly seems to be reflected in Axpo's performance in this year's *Energy Risk* Commodity Rankings, where the firm was ranked by clients and market participants as the number one overall power dealer. Axpo also ranked highly in numerous gas and power categories, including as the number one dealer in power trading in Italy, Germany and the UK, and number two overall in natural gas trading.

Energy Risk caught up with Franceschino to learn more about how Axpo was able to support its clients through such unprecedented times, and his expectations for the future.

Energy Risk: In what ways are your clients being affected by the events of last year, and how have you been able to support them?

Domenico Franceschino: What happened last year was extreme, unprecedented and impossible for any of us to foresee. Our clients – our partners – were impacted by the absolute level of prices in power and gas and the volatility. Our long partnerships with most of them means we were able to have an open, ongoing discussion about how to best

manage the risks caused by high prices and high volatility.

We needed to understand the extent to which our clients were impacted by this event to establish the best risk management tools to use to reduce the exposure.

On the one hand, there was the necessity to use more hedging tools but, on the other, the hedging tools required access to exchanges, which would mean a bigger exposure to margin calls. This all needed to be taken into consideration.

Energy Risk: In such an unprecedented situation, to what extent were you able to draw on past experiences? Were there parallels you could draw on?

Domenico Franceschino: Of course, there have been very challenging times in the past but, to be honest, at least in my experience, nothing was comparable to these recent events. It taught us a couple of things. First, it reinforced our belief in having strong relationships with our partners because this dialogue is the basis for understanding the market and the behaviour of market actors.

Second, we know our success in servicing customers is based on our ability to be swift and nimble. We can assess, analyse and react very quickly. We have learnt that from past experiences.

Energy Risk: Was it a case of updating models to make them fit this new reality, or did it require developing new models from scratch or taking a new approach?

Domenico Franceschino: We had to recalibrate certain models, but I think this is part of growing. It's about being close to the business and adapting to the new market conditions. Of course, it takes time and you learn by doing, but I think we adapted very successfully. The events of last year also tested our risk management to the limit, which proved solid and robust. It required a lot of hard work though. We worked very, very hard to understand and readjust to the new situation, new requests from our partners and the new market conditions.

Energy Risk: If you had to pick one or two major lessons you've learned, what are they?

Domenico Franceschino: First, proximity to the market and the importance of long-term, trusted relationships with our partners. You cannot find the solution alone – it's just not possible. You need to help your partners find the right solutions and they help you find yours.

Second, you have to adapt, no matter how experienced you are. You have to be humble and study and learn in order to understand.

Energy Risk: In the 2023 Commodity Rankings, Axpo came first in power trading overall, up from second place last year, and second in natural gas trading overall, also up a place from last year. Does this reflect any increased effort you've been making in those markets?

Domenico Franceschino: I think we worked really hard last year to better understand our partners in the gas and power markets, and this was helped by our structure – the fact we have a wide local presence. We are present in more than 30 countries, with regional originators that speak the local languages and understand the nuances of local regulations and markets. These people can be in front of a customer very quickly. This is very useful for us if we need to, for example, understand quickly how a specific country might react to, or be affected by, a particular crisis.

Also, we remained consistent. Throughout each crisis, we were always there, always open to discussing the situation and finding a solution. And, likewise, every time we needed some input, our partners were there too.



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Domenico Franceschino, Axpo

Energy Risk: How do you see the European gas market operating in the short to medium term in light of what's going on at the moment?

Domenico Franceschino: We know that European storage levels are currently adequate. We had a mild winter, which kept demand down. There are two scenarios to consider for the short to medium term. One is if demand remains reasonably low. If China's consumption remains lower than pre-Covid-19 levels and if gas continues to flow from north Africa and Norway, with liquefied natural gas (LNG) continuing to come to Europe, then it's likely gas inventories will remain stable, keeping a lid on gas and power prices.

In the other scenario, if China's demand for gas increases and if European industrial activities start to pick up on the back of lower gas and power prices, then there would be increased competition for gas supply. Initially, this could mean that more LNG volumes will

be diverted to Asia. Then much will depend on whether gas flows from Russia will continue to be reduced. If all these things happen, then I'm afraid we will again see high prices next winter.

Energy Risk: What issues do you see shaping European power markets in the medium to long term?

Domenico Franceschino: Gas-fired power stations will remain a fundamental part of the stack in Europe, but the ongoing phase-out of coal will continue to remove a cheap but dirty component of baseload capacity from the market. At the same time, we'll see increased production from renewable sources, especially solar and wind. As more electricity generation becomes intermittent, it will become harder to forecast. Additionally, demand will grow for such things as hydrogen and battery storage.

On the other hand, demand for electricity will increase as the electrification of industry and transport really takes off.

All this means that the grid and the electricity system will need to adjust to better accommodate the variability in production and increase in demand. There needs to be more flexibility in the grid and more means of production. Even gas-fired power plants need to be more flexible.

There also needs to be a big push from regulators and lawmakers to enhance the legal framework so all of these activities can be possible within a stable framework.

It's very important that market signals reflect reality so the market adjusts based on the correct signals.

Energy Risk: How is Axpo helping its clients manage climate risk?

Domenico Franceschino: Our customers are very aware of climate and transition targets, and are very keen to implement their own. We facilitate and participate in these goals in several ways. Axpo is a leader in European power purchase agreements, which underpin the financing that enables renewable assets to be developed.

We're very proud of what we have achieved and our contribution to helping green electricity production. We've done this all over Europe and it has been especially challenging in certain countries from a long-term risk management perspective.

On the demand side, we try to increase awareness and help our customers achieve their green targets by using instruments such as guarantees of origin and other green certificates.

Axpo also develops and builds wind and solar assets, playing a part when it comes to the growth of renewables. ■

Overall tables

Commodities

2023	2022	Dealer
1	2	UBS
2	4	ENGIE Global Markets
3	3	TD Bank
4	–	Deutsche Bank
5	1	Axpo Group
6	5	JP Morgan
7	–	Gunvor
8	8	BP

Natural gas

2023	2022	Dealer
1	2	ENGIE Global Markets
2	3	Axpo Group
3	–	BP
4	–	EDF Trading

Energy

2023	2022	Dealer
1	2	ENGIE Global Markets
2	1	Axpo Group
3	5	BP
4	–	EDF Trading
5	4	Macquarie

Power

2023	2022	Dealer
1	2	Axpo Group
2	1	ENGIE Global Markets
3	3	EDF Trading
4	–	RWE Supply & Trading

Oil and products – Europe

Brent swaps

2023	2022	Dealer
1	1	ENGIE Global Markets
2	–	Axpo Group
3	–	Onyx Commodities
4	–	BNP Paribas

European refined products

2023	2022	Dealer
1	–	ENGIE Global Markets
2	–	BP
3	–	Axpo Group
4=	–	Onyx Commodities
4=	–	Morgan Stanley

Natural gas – Europe

NBP (UK)

2023	2022	Dealer
1	2	ENGIE Global Markets
2	1	Axpo Group
3	–	EDF Trading

TTF (Netherlands)

2023	2022	Dealer
1	1	ENGIE Global Markets
2	–	Axpo Group
3	2	RWE Supply & Trading

Options and structured business

2023	2022	Dealer
1	1	ENGIE Global Markets
2	–	Axpo Group
3	–	Morgan Stanley

Power – Europe

UK

2023	2022	Dealer
1	1	Axpo Group
2	–	EDF Trading
3=	2	ENGIE Global Markets
3=	–	Shell

France

2023	2022	Dealer
1	1	ENGIE Global Markets
2	2	Axpo Group
3	3	EDF Trading

Belgium

2023	2022	Dealer
1	1	ENGIE Global Markets
2	–	EDF Trading
3	–	Axpo Group

Germany

2023	2022	Dealer
1	2	Axpo Group
2	1	ENGIE Global Markets
3	3	RWE Supply & Trading
4	–	EDF Trading

Italy

2023	2022	Dealer
1	2	Axpo Group
2	1	ENGIE Global Markets
3	3	Enel

Nordpool

2023	2022	Dealer
1	–	Statkraft
2	–	Axpo Group

How the poll was conducted

The *Energy Risk* Commodity Rankings survey was live between November 2, 2022 and January 5, 2023 and received valid responses from 708 individuals. The survey asked respondents to vote for their top three dealers and brokers in any markets in which they had been active over the previous year. The rankings poll is designed to reflect market participants' perception of a dealer or broker based on the overall quality of service they offer their clients. It is not intended to reflect volumes traded in any market. Instead, respondents vote according to a range of criteria including reliability, pricing, liquidity provision and speed of execution.

To create the final list of rankings, *Energy Risk* aggregates the results, weighting them by awarding three points for a first place, two points for second place and one point for third. The points are then added up and the highest-placed firms in each category are listed in the rankings tables. The overall rankings (Best overall dealer, Best overall broker, etc.) are calculated by adding up all the points accrued to each firm across the different sections (oil, gas, power, etc.). Following closure of the poll, the results are subject to an internal review process, which can result in categories being dropped or aggregated if they do not have enough votes. The outcome of the review is final.